

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

FILED

2-25-16

09:46 AM

Agenda ID #14685

Ratesetting

February 25, 2016

TO PARTIES OF RECORD IN APPLICATION 15-03-012:

This is the proposed decision of Administrative Law Judge (ALJ) Darwin E. Farrar. It will appear on the Commission's March 17, 2016 agenda. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Pursuant to Rule 14.6(b), comments on the proposed decision must be filed within 14 days of its mailing and no reply comments will be accepted.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Farrar at edf@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ DOROTHY J. DUDA for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:lil

Attachment

Decision **PROPOSED DECISION OF ALJ FARRAR** (Mailed 2/25/2016)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
PACIFICORP (U901E) for Authority to
Recover Costs Recorded in the Catastrophic
Event Memorandum Account.

Application 15-03-012
(Filed March 27, 2015)

**DECISION AUTHORIZING RECOVERY OF COSTS RECORDED
IN THE CATASTROPHIC EVENT MEMORANDUM ACCOUNT****Summary**

PacifiCorp is a multi-jurisdictional utility providing electric retail service to customers in California, Idaho, Oregon, Utah, Washington, and Wyoming. PacifiCorp serves approximately 45,000 customers in Del Norte, Modoc, Shasta, and Siskiyou counties in northern California. Today's decision approves PacifiCorp's recovery of a \$545,000 revenue requirement associated with drought-related fire hazard mitigation costs recorded in its Catastrophic Event Memorandum Account. PacifiCorp is authorized to amortize its revenue requirement for one year beginning on the first day of the month following this decision.

1. Background

On January 17, 2014, California Governor Jerry Brown declared a state of emergency due to the drought conditions in California. On February 18, 2014, the California Public Utilities Commission's (CPUC or Commission) Safety and Enforcement Division (SED), issued Resolution ESRB- 4, directing PacifiCorp (as

well as other California electric utilities) to implement certain fire mitigation measures.

On March 27, 2015, PacifiCorp filed Application 15-03-012 to recover a \$545,000 revenue requirement related to approximately \$1,011,615 of Catastrophic Event Memorandum Account (CEMA) – eligible costs incurred responding to catastrophic events in 2014. PacifiCorp’s transmission system is considered a system asset that serves customers throughout PacifiCorp’s six-state service territory. Similarly, functions such as dispatch and customer service are centralized and serve customers throughout PacifiCorp’s system. As a result, costs are shared by all of PacifiCorp’s customers and California is allocated only a small share of these costs. Additionally, transmission assets that exist within Oregon but are critical for service into California were also impacted by lightning-sparked wildfire, however, the costs to respond to and repair these facilities are not included in PacifiCorp’s Application. The testimony and exhibits of PacifiCorp’s witness Mr. McDougal describes the allocation of costs and the calculation of the revenue requirement included for recovery through this Application.¹ The costs at issue reflect incremental expenses and capital-related costs incurred for implementing drought-related fire hazard mitigation measures and responding to two fires that occurred in PacifiCorp’s California service territory.

On May 1, 2015, the California Public Utilities Commission’s Office of Ratepayer Advocates (ORA) filed a protest to the PacifiCorp application. The ORA protest identified the following issues for consideration in this proceeding:

¹ Consistent with the allocation rates in its 2009 general rate case, PacifiCorp seeks recovery of transmission capital costs with 1.7558% allocated to its customers in its California jurisdictions.

- Whether each CEMA Event was officially declared a disaster by a competent state or federal authority;
- Whether PacifiCorp timely established a CEMA for each of the CEMA Events and appropriately booked the costs of restoration in accordance with Public Utilities Code Section 454.9, Commission Resolution E-3238, and/or any other pertinent Commission policies or practices;
- Whether the CEMA-eligible incremental costs for each CEMA Event were proximately caused by an officially declared disaster in accordance with Section 454.9, Resolution E-3238, and/or other pertinent Commission rules and regulations;
- Whether PacifiCorp's proposed recovery of \$545,000 in revenue requirements based on estimated CEMA-eligible costs of \$1,011,615 are incremental, reasonable, justified, and recoverable;
- Whether the estimated total CEMA-eligible incremental costs of \$1,011,615 are properly associated with each of the corresponding CEMA Events, and are reasonable, justified, and consistent with the law;
- Whether the allocation of the CEMA-eligible incremental costs to California ratepayers and the associated revenue requirement request of \$545,000 is reasonable, justified, and consistent with the law;
- Whether the accounting method(s) used for booking the costs regarding each of the CEMA Events is reasonable, justified, and consistent with the law; and
- Whether PacifiCorp's proposed amortization in rates of the \$545,000 authorized CEMA expenses or any other proposed recovery methods are reasonable, justified, and consistent with the law.

After identifying the issues above, ORA requested evidentiary hearings be scheduled at a time that would allow it to conduct discovery and the opportunity conduct an audit.

On September 17, 2015, ORA issued its Report on the Examination Results for PacifiCorp's CEMA on Drought Mitigation Efforts and Wildfires in 2014 (ORA Report). The ORA Report does not recommend any adjustments to PacifiCorp's invoices or its requested cost recovery. Given the ORA Report, hearings on the matter were cancelled.

2. Discussion

2.1. Regulatory Compliance

California Public Utility Code Section 454.9(b) allows for recovery in rates of costs, including capital costs, incurred in responding to a catastrophic event. Resolution E-3238 authorized PacifiCorp (and other utilities) to establish catastrophic event memorandum accounts and to record in those accounts the costs of the following: (1) restoring utility service to customers; (2) repairing, replacing, or restoring damaged utility facilities; and (3) complying with governmental agency orders resulting from declared disasters.² Resolution E-3238 also authorized utilities to record capital-related costs such as depreciation and return on capitalized plant additions resulting from restoration activities.³ Finally, Resolution E-3238 indicates "[r]ecovery may be limited by consideration of the extent to which losses are covered by insurance, the level of loss already built into existing rates, and possibly other factors relevant to the particular utility and event."⁴

² Public Utilities Commission of The State of California, Commission Advisory & Compliance Division, Resolution E-3238, Order Authorizing All Utilities to Establish Catastrophic Event Memorandum Accounts, As Defined, To Record Cost Resulting From Declared Disasters, Ordering Paragraph 1 (July 24, 1991).

³ *Id.* at 2.

⁴ *Id.* at 2-3.

PacifiCorp filed Advice Letter No. 238-E in accordance with Resolution E-3238 to establish its CEMA by adding Preliminary Statement Part C (Part C) to its approved California tariff book. A copy of PacifiCorp's Part C, describing the procedures for recording and seeking recovery for CEMA costs, is provided with PacifiCorp's Application as Appendix B. Consistent with Public Utility Code Section 454.9 (1)(3), Part C defines a catastrophic event as an event declared a disaster by competent state or federal authorities.⁵ Part C, consistent with Resolution E-3238, requires the Company, if possible, to notify the Commission's Executive Director of a catastrophic event by letter within 30 days of the event if PacifiCorp records costs to CEMA.⁶

In 2014, PacifiCorp notified the Commission of its plan to record costs incurred associated with three separate catastrophic events. On March 18, 2014, PacifiCorp notified the Commission of the plan to record costs incurred in response to the February 28, 2014 letter from the Director of the Safety and Enforcement Division directing utilities to take all practicable measures to reduce the likelihood of fire from utility facilities that were expected from the state's extreme drought condition. On August 29, 2014, PacifiCorp notified the Commission of its plan to record costs incurred responding to fires in July 2014 caused by significant lightning activity during several summer storms. On October 8, 2014, PacifiCorp notified the Commission of its plan to record costs incurred responding to the Boles Fire near Weed, California. Copies of all three notices are included with PacifiCorp's Application as Appendix C.⁷

⁵ See Advice Letter No. 238-E 2d.

⁶ Resolution E-3238, Ordering Paragraph 2.

⁷ See PacifiCorp Exhibit PPL/100.

Consistent with Ordering Paragraph 3 of Resolution E-3238, Part C also provides that costs recorded in CEMA may be recovered in rates “only after a request by the Company, showing of reasonableness, and approval by the Commission.”

2.2. The Events at Issue

2.2.1. Fire Mitigation Measures

According to PacifiCorp, in response to the February 18, 2014, letter from SED’s Acting Director it increased patrolling and vegetation management for targeted facilities, re-inspected and accelerated corrections of certain conditions, installed fault distance-reporting relays on specific transmission lines, accelerated “No Test” policy implementation, and increased supply of fire suppression resources available to field resources.⁸ ORA notes that these measures were taken in response to Governor Brown’s declaration of a state of emergency because of the drought conditions in California and PacifiCorp is eligible to request for recovery of the drought mitigation efforts in its CEMA under Resolution ESRB-4.⁹

2.2.2. The Summer 2014 Wildfires

In July and August of 2014, a series of thunderstorms with significant lightning activity struck northern California and southern Oregon, sparking wildfire activity, including the Beaver Complex and Oregon Gulch fires. On August 2, 2014, Governor Brown declared a state of emergency due to the wildfires in certain areas, including Modoc, Shasta and Siskiyou counties.

⁸ See PacifiCorp Exh. PPL/100.

⁹ ORA Report at 1.

PacifiCorp implemented its emergency response plans to mitigate potential damage and rebuilt certain facilities affected by the fire.¹⁰

On August 29, 2014, PacifiCorp sent notification to the California Public Utilities Commission that it would start to record \$591,716, which was comprised of \$125,086 of expense and \$466,630 of capital, related to the 2014 Wildfires to its CEMA. ORA reviewed several PacifiCorp invoices and found no adjustments were needed.

2.2.3. The Boles Fire

On September 15, 2014, the Boles Fire started near the town of Weed, California. PacifiCorp implemented emergency response plans, including placing personnel in California, Klamath Falls, Medford and Grants Pass on stand-by. PacifiCorp crews were able to access the area September 16, 2014 to assess damage and begin restoration activities. On September 17, 2014, Governor Brown declared a state of emergency due to the Boles fire.¹¹

On October 8, 2014, PacifiCorp sent notification to the California Public Utilities Commission that it would start to record costs into the CEMA account which ultimately totaled \$419,899, which was comprised of \$20,579 of expense and \$398,710 of capital, related to the Boles Fire. ORA selected and reviewed several invoices related to the catastrophic event and found that no adjustments were needed.

¹⁰ *Ibid.*

¹¹ *Ibid.*

2.3. Costs and Proposed Recovery

Through March 10, 2015, PacifiCorp recorded approximately \$1,011,615 to its CEMA account related to the cost to repair and replace facilities, restore service, and respond to customer inquiries for catastrophic events that took place in 2014. According to PacifiCorp, in determining the costs recorded in the CEMA, it ensured such costs were incremental and not duplicative of costs included in its base rates.

PacifiCorp proposes a revenue requirement associated with the CEMA costs of approximately \$545,000. PacifiCorp claims that the vast majority of the costs were related to restoring service and repairing PacifiCorp's distribution system, costs that are assigned directly to California customers. The remaining costs are said to reflect California's share of system expenses related to PacifiCorp's transmission system, dispatch, customer service and communications.

ORA verified PacifiCorp's calculations and supporting documents and found PacifiCorp's recorded costs related to restoring service to customers, repairing or replacing damaged facilities and communicating with customers created by the 2014 Wildfires and the Boles Fire to be incremental and eligible under Resolution E-3238. ORA found no recommended adjustments to the requested cost recovery.

PacifiCorp proposes to recover its \$545,000 revenue requirement over a one-year period, resulting in an average net increase of approximately 0.4 percent.¹² PacifiCorp proposes to file an advice letter to discontinue the

¹² Thereafter, recovery of capital related costs (e.g., return, taxes and depreciation) would be included in PacifiCorp's next general rate case.

collection surcharge after the revenue requirement has been fully collected. Because the costs included for recovery are primarily distribution-related, PacifiCorp proposes to spread the costs to customer classes based on each class' share of distribution revenues. Recovery would occur through new tariff rider, Schedule S-96, provided in Appendix A to the PacifiCorp Application.¹³

PacifiCorp's proposed increase from rates presently in effect would result in the following overall average increase by customer class:¹⁴

Customer Class	Proposed Price Change	
	Dollars	Percent (%)
Residential	\$312,000	0.5%
Commercial/Industrial	\$166,000	0.3%
Irrigation	\$61,000	0.4%
Lighting	\$6,000	0.6%
Overall	\$545,000	0.4%

The overall rate impact to customers is an increase of 0.4 percent. Appendix A to PacifiCorp's application contains proposed Schedule S-96, a statement of present and proposed rates, and a table showing the impact of the proposed rates on each customer schedule.¹⁵

¹³ Also included in Appendix A is a statement of present and proposed rates and a table showing the impact of proposed Schedule S-96 on each customer rate schedule.

¹⁴ The rate impact of the Company's proposal is described in the direct testimony of Mr. McDougal (Exhibit PAC/200).

¹⁵ See Exhibit PAC/200 at 4.

3. Conclusion

No party disputes that PacifiCorp timely notified the Commission of its plan to record costs incurred related to fire mitigation measures, responding to the Summer 2014 Wildfires, and responding to the Boles Fire near Weed, California, or that these events were officially declared a disaster by a competent state authority. The record of this proceeding, which includes the ORA Report, establishes that the CEMA-eligible incremental costs for each CEMA Event were proximately caused by an officially declared disaster and that PacifiCorp appropriately booked the costs of restoration in accordance with Public Utilities Code Section 454.9 and Res. E-3238. We therefore conclude that PacifiCorp's proposed recovery of \$545,000 in revenue requirements (based on estimated CEMA-eligible costs of \$1,011,615) and the allocation of the CEMA-eligible incremental costs to California ratepayers is reasonable, justified, and consistent with the law. We further find the accounting method PacifiCorp used for booking the costs related to each of the CEMA Events and PacifiCorp's proposed amortization in rates of the authorized CEMA expenses to be reasonable, justified, and consistent with the law.

4. Categorization and Need for Hearing

Resolution ALJ 176-3355 filed April 9, 2015 categorized this proceeding as Ratesetting and preliminarily determined that this proceeding would require evidentiary hearings. Given the ORA Report in this proceeding, no evidentiary hearings are necessary and none were held. The preliminary determination that hearings are necessary is changed to no hearings are necessary.

5. Comments on Proposed Decision

The Proposed Decision in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code. Parties agreed to a

shortened comment period as allowed under Rule 14.6(b) of the Commission's Rules of Practice and Procedure. Comments were filed on _____, 2016.

6. Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Darwin E. Farrar is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. On January 17, 2014, California Governor Jerry Brown declared a state of emergency due to the drought conditions in California.
2. On February 18, 2014, the Commission's Safety and Enforcement Division, issued Resolution ESRB- 4, directing PacifiCorp and other California electric utilities to implement certain fire mitigation measures.
3. The Summer 2014 Wildfires were officially declared a disaster by a competent state authority.
4. PacifiCorp notified the Commission's Executive Director that the Summer 2014 Wildfires were declared a disaster by a competent state authority by letter within 30 days of the event.
5. The Boles Fire was officially declared a disaster by a competent state authority.
6. PacifiCorp notified the Commission's Executive Director that the Boles Fire was declared a disaster by a competent state authority by letter within 30 days of the event.
7. PacifiCorp timely established a CEMA for the Summer of 2014 Wildfires.
8. PacifiCorp timely established a CEMA for the Boles Fire.
9. ORA's Report on the Examination Results for PacifiCorp's Catastrophic Event Memorandum Account on Drought Mitigation Efforts and Wildfires in 2014 found no adjustments to PacifiCorp's requested recovery were necessary.

Conclusions of Law

1. PacifiCorp complied with the notification requirements of Public Utilities Code Section 454.
2. PacifiCorp appropriately booked the costs of the Summer of 2014 Wildfires restoration in accordance with Public Utilities Code Section 454.9 and Commission Resolution E-3238.
3. PacifiCorp appropriately booked the costs of the Boles Fire restoration in accordance with Public Utilities Code Section 454.9 and Commission Resolution E-3238.
4. The CEMA-eligible incremental costs for the Summer of 2014 Wildfires were proximately caused by an officially declared disaster as required by Public Utilities Code Section 454.9 and Commission Resolution E-3238.
5. The CEMA-eligible incremental costs for the Boles Fire were proximately caused by an officially declared disaster as required by Public Utilities Code Section 454.9 and Commission Resolution E-3238.
6. PacifiCorp's proposed recovery of a \$545,000 revenue requirement in rates, based on \$1,011,615 in CEMA-eligible incremental costs and the allocation of the CEMA-eligible incremental costs to California ratepayers are just, reasonable, and consistent with the law.
7. The accounting method(s) used for booking the costs regarding each of the CEMA Events is just, reasonable, and consistent with the law.

O R D E R**IT IS ORDERED** that:

1. PacifiCorp is authorized to recover a \$545,000 revenue requirement based on Catastrophic Event Memorandum Account eligible costs of \$1,011,615.

2. PacifiCorp shall amortize in rates the authorized Catastrophic Event Memorandum Account expenses as set forth herein, over a period of one year starting on the first day of the month after the effective date of this decision.

3. No evidentiary hearings are necessary.

4. Application 15-03-012 is closed.

This order is effective today.

Dated _____, at San Francisco, California.